

## Message Text

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11

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 AGR-05 AGRE-00 /083 W  
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R 100025Z SEP 76

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 7290

INFO TREASURY WASHDC

C O N F I D E N T I A L MEXICO 11603

E. O. 11652: GDS

TAGS: EFIN MX

SUBJECT: PESO FLOTATION

1. SUMMARY. AS THE PESO FLOATS INTO ITS SECOND WEEK, THE LOCAL ECONOMIC SITUATION REMAINS ONE OF GREAT CONFUSION. UNJUSTIFIED PRICE INCREASE ABOUND, LABOR DEMANDS FOR HIGHER WAGES ARE SPREADING, AND THERE IS WIDESPREAD EXPECTANCY THAT THE SO-CALLED FLOAT WILL LAST NO MORE THAN A MONTH. THUS FAR, THE ONLY CONCRETE MEASURES INTRODUCED BY THE GOM ARE THE NEW TARIFFS ON IMPORTS AND EXPORTS. THERE IS NO OPTIMISM RE GOM'S ABILITY TO PUT TOGETHER AN EFFECTIVE STABILIZATION PROGRAM. PESO FLOAT REMAINS THE MAJOR NEWS STORY. END SUMMARY.

2. MEXICO'S CURRENT ECONOMIC SITUATION CAN BE DESCRIBED ONLY AS ONE OF CONFUSION WITH INCREASING CONCERN OVER THE SHORT-TERM OUTLOOK. GOVERNMENT INTENTIONS AS REGARDS STABILIZATION MEASURES HAVE NOT BEEN CLARIFIED. THERE IS WIDESPREAD ANTICIPATION THAT THE FLOAT IS OF SHORT DURATION AND WILL BE REPLACED BY ANEW PARITY WITHIN A MONTH. THIS APPEARS DUE TO PRESIDENT ECHEVERRIA'S STATEMENT ON SEPTEMBER 1, BEFORE GIVING HIS ANNUAL STATE  
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FO THE UNION ADDRESS, TO THE EFFECT THAT THE PESO WOULD

BE "REGULARIZED" WITHIN THREE OR FOUR WEEKS. BOTH BUSINESS AND LABOR HAVE CALLED FOR AN EARLY FIXING OF THE RATE TO END "UNCERTAINTY".

3. THE IMPORT OF PRICE INCREASES IS IMPOSSIBLE TO DETERMINE, BUT EXAMPLES OF INCREASES UNJUSTIFIED BY HIGHER COSTS ABOUND, PARTICULARLY BY BUSINESSES CATERING TO TOURISTS, BUT ALL CLASSES IN MEXICO HAVE BEEN HIT BY UNAUTHORIZED HIGHER PRICES BEING CHARGED FOR FOODSTUFFS AND TRANSPORTATION. MEXICANS APPEAR INTENT ON MAINTAINING THEIR INCOME IN DOLLAR TERMS, EVEN MORE SO THAN IN REAL TERMS. THIS IS DUE IN PART TO THE CLOSE ASSOCIATION OF THE PESO WITH THE DOLLAR IN MEXICAN MINDS. IT IS ALSO DUE TO LACK OF EDUCATION BY THE GOVERNMENT ON THE IMPACT OF A DEVALUATION.

4. TO COUNTERACT PRICE INCREASES THE GOM IS DEPLOYING AGENTS OF THE SECRETARIAT OF INDUSTRY AND COMMERCE; THEIR SUCCESS IS LIMITED. THE GOM ALSO SEEMS TO BE PRESSURING THE LARGER STORES AND CHAINS TO PUBLICIZE AND MAINTAIN PRE-FLOAT PRICES. THE GOM CONSUMER INSTITUTE PUBLISHED A FULL PAGE AD IN SEPTBMER 9 PRESS ADVISING CONSUMERS TO (A) PAY ONLY OFFICIAL PRICES FOR THOSE HOSE GOODS WITH OFFICIAL PRICES; (B) DO NOT GO INTO DEBT; (C) DO NOT MAKE PANIC PURCHASES; (D) DENOUNCE BAD MERCHANTS, ETC.

5. CONVERSATIONS WITH PRIVATE BANKERS INDICATE CAPITAL REFLOW IS CONTINUING BUT VOLUME IS UNKNOWN. FOREIGN BANKERS HAVE APPRENTLY FROZEN LENDING TO THE PRIVATE SECTOR AND DO NOT ANTICIPATE ANY INCREASES FOR THREE TO SIX MONTHS IN ORDER TO GIVE BOTH THE BANKERS AND THE COMPANIES TIME TO REASSES THE BORROWER'S POSITION. WE HAVE HEARD THAT SOME PUBLIC SECTOR BORROWERS ARE COMING IN EARLIER THAN USUAL TO REQUEST ROLL-OVERS OF SHORT-TERM DEBT MATURING IN THE NEAR FUTURE. THE FOREIGN BANKS ARE REPORTEDLY SYMPATHETIC TO THESE REQUESTS, BUT IT IS NOT YET POSSIBLE TO GET A READING ON WHAT MIGHT HAPPEN TO THEIR OVERALL EXPOSURE.

6. WELL-INFORMED BUSINESSMEN WE HAVE SPOKEN TO ARE NOT OPTIMISTIC REGARDING THE GOVERNMENT'S ABILITY TO PUT  
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TOGETHER AN EFFECTIVE STABILIZATION PROGRAM.  
THOMPSON

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Control Number:** n/a  
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**Draft Date:** 10 SEP 1976  
**Decaption Date:** 01 JAN 1960  
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**Disposition Approved on Date:**  
**Disposition Authority:** blochd0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
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